

## Message Text

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PAGE 01 LONDON 10034 311749Z

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ACTION EB-11

INFO OCT-01 EUR-25 ADP-00 PM-07 NSC-10 SS-15 RSC-01

CIAE-00 INR-10 NSAE-00 DODE-00 L-03 MC-02 OMB-01

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3713

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY THE HAGUE

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E.O. 11652: N/A

TAGS: ETRN, UK

SUBJECT: HAWKER-SIDDELEY 146 PROJECT APPROVED

REF: LONDON 7207

1. BRITISH GOVERNMENT HAS ANNOUNCED AGREEMENT WITH HAWKER-SIDDELEY (HS) ON TERMS OF GOVERNMENT INVESTMENT IN HS-146 PROJECT. AGREEMENT ON LAUNCHING ASSISTANCE MEANS PROJECT WILL NOW GO FORWARD. FIRST FLIGHT IS SET FOR LATE 1975 OR EARLY 1976 AND AIRCRAFT EXPECTED TO ENTER AIRLINE SERVICE EARLY 1977. AIRCRAFT, WHICH IS TO USE FOUR US AVCO-LYCOMING ALF-502H JET ENGINES, WILL BE BUILT IN TWO VERSIONS, ONE SEATING 71-88 PASSENGERS AND THE OTHER, WITH STRETCHED FUSILAGE, CARRYING UP TO 102 PASSENGERS. HS-146 WILL FLY AT 500 MPH OVER DISTANCES OF 1,200 MILES AND WILL BE ABLE OPERATE OFF GRASS FIELDS 3,600 FEET LONG. AIRCRAFT IS DESIGNED PROVIDE LOW NOISE FEEDER-LINE SERVICE TO MANY COMMUNITIES EITHER NOT PREVIOUSLY SERVED OR SERVED ONLY BY PISTON OR TURBO-PROP AIRCRAFT. HS HOPES TO SELL 400 AIRCRAFT THROUGHOUT THE WORLD BY MID 1980'S.

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2. GOVERNMENT CONTRIBUTION TO PROJECT, DESCRIBED AS "RISK-SHARING INVESTMENT" RATHER THAN LAUNCHING AID, IS FIXED AT 46 MILLION POUNDS IN CURRENT PRICES AND WILL RISE ONLY INsofar AS PRICE LEVELS INCREASE. ANY COST OVER-RUNS ARE TO BE BORNE BY HS. GOVERNMENT FUNDS ARE TO BE RECOVERED FROM LEVY ON SALES OF FIRST 350 AIRCRAFT PRODUCED. GOVERNMENT SAYS IT EXPECTS TO OBTAIN A DIS-COUNTED CASH FLOW RETURN OF 10 PERCENT ON ITS INVESTMENT.

3. WE UNDERSTAND THAT GOVERNMENT HAD ACCEPTED EARLY THIS YEAR PROPOSITION THAT HS-146 IS AN ECONOMICALLY VIABLE PROJECT BUT BUDGETARY RESTRAINTS AND WIDESPREAD CRITICISM ABOUT TAXPAYERS' MONEY BEING ABSORBED IN LARGE AEROSPACE PROJECTS, NOTABLY CONCORDE AND ROLLS-ROYCE RB-211 PROGRAM, HAVE FORCED GOVERNMENT INTO EXTREMELY HARD-BARGAINING WITH HS. ON OTHER HAND, EQUALLY IMPORTANT CONSIDERATION HAS BEEN FACT THAT ALTHOUGH UK AEROSPACE EXPORTS ARE AT RECORD LEVELS, GREAT BULK OF THESE EXPORTS FLOW FROM OLD PROJECTS WHICH SOON WILL START TO PHASE OUT AND UK AEROSPACE INDUSTRY DESPARATELY NEEDS NEW PROJECTS, SUCH AS HS-146 TO KEEP INDUSTRY HEALTHY IN LATTER PART OF 1970'S. WE BELIEVE THIS FACTOR HAD IMPORTANT BEARING ON GOVERNMENT DECISION TO SUPPORT HS-146 PROJECT.

4. IN REACHING DECISION, UK HAD TO OVERCOME STRONG OBJECTIONS OF DUTCH AND, TO LESSER EXTENT, GERMANS BECAUSE HS-146 WILL COMPETE WITH F-28 AND VFW-614. SIMILARLY, UK FINDS ITSELF SOMEWHAT EMBARRASSED BY FACT THAT HS-146 DOES NOT HAVE EUROPEAN COLLABORATOR DESPITE STRIDENT CALL BY UK MINISTER OF AEROSPACE HESELTINE FOR INTEGRATION OF EUROPEAN AEROSPACE INDUSTRY. GOVERNMENT PUT CONSIDERABLE PRESSURE ON HS TO TAKE ON A EUROPEAN PARTNER BUT HS, WHICH IS A HARD-NOSED, EFFICIENT ORGANIZATION, REFUSED TO GIVE UP ANY CONTROL OVER 146 PROJECT AND INSISTED THAT EUROPEAN PARTICIPATION WOULD BE WELCOME BUT ACCEPTABLE ONLY TO EXTENT EUROPEAN CONTRIBUTIONS COMMERCIALY COMPETITIVE. TO ATTEMPT HEAD-OFF EUROPEAN CRITICISM OF BRITISH GOVERNMENT SUPPORT FOR WHAT IS ESSENTIALLY A NATIONAL PROJECT WHICH MAY HURT EUROPEAN LIMITED OFFICIAL USE

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PAGE 03 LONDON 10034 311749Z

COMPETITORS, UK IS STRESSING THAT IT IS MERELY TAKING A PIECE OF THE ACTION ON WHAT IS A STRAIGHTFORWARD COMMERCIAL VENTURE.

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